



Rating Rationale

Indian Renewable Energy Development Agency Ltd.

25 November 2020

Brickwork Ratings assigns the 'BWR AA+' / Negative rating to the proposed perpetual bond, 'BWR AAA' / Negative to the proposed bank loan facility and proposed bonds, and it withdraws the rating of bonds and reaffirms existing ratings, while revising the outlook to Negative from Stable of Indian Renewable Energy Development Agency Ltd.

Particulars

Instrument/Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (June, 2020)	Present
Proposed Perpetual Bond	-	500	Long Term	-	BWR AA+/Negative (Assigned)
Proposed Term Loan	-	2000		-	BWR AAA/Negative (Assigned)
Proposed Taxable Bonds	-	2000		-	
Proposed Secured Taxable Bonds (under TLTRO)	2000	2000		BWR AAA/Stable	Withdrawn
Taxable Unsecured Sub-Debt Tier II Bonds	500	500			BWR AAA/Negative (Reaffirmed and outlook revised from Stable)
Existing Taxable Bonds	1803	1803			
Taxable Sub Tier II Bonds	150	150			
Taxable Green Bonds	865	865			
Term Loan	2700	2700			
Long Term Taxable Bonds	1200	150		BWR AAA (CE)/Stable	
		1050			BWR AAA (CE)/Negative (Reaffirmed and outlook revised from Stable)
Long Term Tax Free Bonds	757.65	757.65			
Total Rated*	9,975.65	12,325.65	INR Twelve Thousand Three Hundred and Twenty Five Crores and Sixty Five Lakhs Only		

*excluding withdrawn



Entity	Rating Type	Tenure	Previous Rating (June, 2020)	Present Rating
Indian Renewable Energy Development Agency Ltd	Issuer	Long Term	BWR AAA/Stable	BWR AAA/Negative (Reaffirmed and outlook revised from Stable)

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
Complete details of bank facilities/bond issue are provided in Annexure-I & II

RATING ACTION / OUTLOOK:

Brickwork Ratings (BWR) assigns ‘BWR AA+’/Negative to the proposed perpetual bond of Rs. 500 Crs and ‘BWR AAA’/Negative to the proposed term loan of Rs. 2000 Crs and proposed bonds of Rs. 2000 Crs of Indian Renewable Energy Development Agency Ltd. (IREDA or the company) while reaffirming the long-term rating of bank loan facilities and bonds at ‘BWR AAA’ and revising the outlook to Negative from Stable. BWR also withdraws the rating of the NCD of Rs. 150 Crs on account of redemption and proposed NCD of Rs. 2000 Crs as it was not raised as per IREDA’s request and the same as per BWR’s withdrawal policy.

The rating continues to factor in 100% Government of India (GoI) ownership in IREDA, IREDA’s strategic role in the promotion of and growth in renewable energy in the country, diversified resource profile and consistent growth in business. The rating has also taken note of IREDA’s asset quality issues in certain segments of the overall portfolio, along with the measures adopted by IREDA to improve the same, and average overall financial risk profile.

The rating of the long-term taxable and tax-free bonds continues to derive credit enhancement from the letter of comfort issued by the Ministry of New and Renewable Energy (MNRE), Government of India (GoI), ensuring the timely repayment of debt towards the said bonds.

BWR has also noted that a sizable portion of the company’s borrowings is in the form of foreign currency loans from various multilateral and bilateral organisations, the majority of which are backed by a government guarantee.

The Negative outlook reflects asset quality pressures faced by the company and the resultant impact on profitability and capitalisation.

Description of Key Rating Drivers

- **Credit Strengths:**

Ownership of and support from GoI: The GoI holds 100% ownership of the company. IREDA was set-up under the administrative control of the MNRE to incentivise growth in renewable energy in the country. The company was accorded the status of Mini Ratna in 2015, following which, there was no additional equity infusion by the GoI in the company. However, the GoI has been consistently supporting IREDA by guaranteeing its foreign currency debt. As on 31 March



2020, ~50% of the company's total debt was backed by government guarantees. Support from the government is expected to continue in future as well due to the strategic importance of IREDA in implementing various renewable-energy-related policies of the GoI.

Diversified resource profile: IREDA's borrowing profile is well-diversified with 49.39% of foreign currency debt, 33.52% of domestic bonds, 8.89% of masala bonds and 8.25% of bank borrowings. As on 31 March 2020, the company's borrowings stood at Rs. 21,853.54 Crs, which increased from Rs. 18,752 Crs as on 31 March 2019. Due to the sovereign ownership, the company holds the ability of raising long-term debt both through domestic and international financial institutions at competitive costs. The cost of borrowing continued to remain fairly competitive at 6.02% for FY20. BWR believes IREDA will maintain a comfortable resource profile over the medium term.

Consistent growth in business: During FY20, the company sanctioned loans of Rs. 12,696.11 Crs, reflecting a boost over the previous year's sanctioned amount of Rs. 11,941.87 Crs. Loan disbursements during FY20 were at Rs. 8,785.31 Crs, which is a minor deflation from the previous year's disbursement of Rs. 9,385.31 Crs, due to subdued market conditions. The total loan portfolio stood at Rs. 23,547.84 Crs as on 31 March 2020, against Rs. 21,388.67 Crs as on 31 March 2019.

- **Credit Risks:**

Pressure on asset quality: IREDA's portfolio continues to remain vulnerable on account of its high concentration in the renewable energy sector, which further exposes the company's portfolio to pertaining sectoral issues and project completion risks. The asset quality of IREDA continues to remain weak, with a high absolute quantum of gross NPA at Rs. 2373.00 Crs as on 31 March 2020 (Rs. 1308.47 Crs as on 31 March 2019) and net NPA of Rs. 1637.46 Crs as on 31 March 2020 (Rs. 779.82 Crs as on 31 March 2019). Given the increase in delinquencies during FY20, the GNPA% rose to 10.08% (6.12% on 31 March 2019) as on 31 March 2020. The company is focusing on loan recovery and also strengthening its credit portfolio by incrementally lending to better-profiled customers and reducing its exposure to stressed sectors, such as biomass, cogeneration and small hydro. Additionally, recovery efforts have resulted in the recovery of an aggregate amount of Rs. 32.16 Crs from NPA as on 31 March 2020. Going ahead, the company's ability to manage and improve the asset quality will remain a key monitorable.

Average overall financial risk profile: IREDA's capitalisation and earnings profile witnessed decline in FY20. Due to increased debt and modest internal capital generation, the gearing ratio surged to 8.67 times as on 31 March 2020 from 7.26 times as on 31 March 2019. The Tier I capital adequacy ratio (CAR) and overall CAR were moderate at 12.23% and 16.54%, respectively, as on 30 June 2020 (provisional), which improved from 12.55% and 14.34% respectively, as on 31 March 2020. The ratios are higher than the minimum regulatory requirement of a Tier I CAR of 8% and total CAR of 10%. As per the RBI circular dated 31 May



2018, IREDA has to maintain a minimum total CAR of 12% (Tier I- 10%) as on 31 March 2020, total CAR of 13% (Tier I- 9%) as on 31 March 2021 and total CAR of 15% (Tier I- 10%) as on 31 March 2022. As the company has to transition to higher regulatory capital adequacy requirements and given the pressure of increased stressed assets, the company would need additional capital infusion. The deteriorating asset quality is affecting the company's profitability due to higher provisioning requirements. The company reported a profit after tax (PAT) of Rs. 214.55 Crs in FY20 vis-a-vis Rs. 249.91 Crs in FY19. The cover of tangible net worth to net NPAs was thin at 0.64 times as on 31 March 2020. Going ahead, the company's ability to infuse additional capital and improve profitability will be a key rating monitorable.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

Perpetual Bond

The key distinguishing feature of such instruments is the triggering of the default from a rating perspective in the event of a breach of the minimum capital adequacy ratios as prescribed by the Reserve Bank of India (RBI) for NBFCs. Another feature is that prior approval from the RBI is mandated if the coupon payment results in a net loss or increases the net loss. Such instruments are perpetual in nature and have a call option on the completion of 10 years, which can only be exercised with prior permission from the RBI. To factor in these risks, BWR notches down the rating on these instruments from the NBFC's corporate credit rating.

RATING SENSITIVITIES

The company's ability to manage asset quality and profitability while maintaining liquidity and capitalisation, improve financial performance and raise capital will be a key rating sensitivity.

Positive: The rating outlook may be revised to Stable if there is a significant improvement in asset quality, capitalisation and profitability, and the company is able to maintain its current liquidity profile and improve capitalisation. Given the Negative outlook, a rating upgrade is unlikely in the near term.

Negative: The rating may be downgraded if there is a change in the ownership and/or diminution in the strategic importance of the institution to the GoI for the promotion of the renewable energy sector or further deterioration in the company's credit and financial risk profile.

COVID-19 (Coronavirus disease), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt will provide some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers as the 6-month moratorium ends and to collect accumulated interest and principal dues on a timely basis after this period will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations



and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

Liquidity Profile: Adequate

As on 31 October 2020, the company had cash and cash equivalent and FDRs of Rs. 1006.97 Crs. Additionally, IREDA had, as of October 2020, undrawn credit facilities of Rs. 1288 Crs. As informed by the company, approximately 69% of its total loan portfolio had availed a moratorium. The company has not availed a moratorium on its borrowings. IREDA’s pending debt obligation for FY21 is Rs. 1257.73 Crs. As per the ALM as on 31 March 2019, the cumulative mismatch across all time buckets of the loan portfolio is positive for the company, indicating an adequate liquidity position.

About the Company

Indian Renewable Energy Development Agency Ltd (IREDA) was incorporated on 11 March 1987 as a fully owned Government of India enterprise under the administrative control of the MNRE. Furthermore, the company was notified as a public financial institution under section 4A of the Companies Act, 1956, and is also registered as a non-banking finance company with the RBI. The company was established for the promotion, development and commercialisation of new and renewable sources of energy and provides financial assistance to energy efficiency and conservation projects. The GoI conferred the status of Mini Ratna under Category-I upon IREDA in June 2015. The sectors financed by IREDA can broadly be classified as under wind energy, small hydro energy, bioenergy, solar energy, energy efficiency and conservation, and new and emerging technologies.

Company Financial Performance

	Units	31 March 2019	31 March 2020
Key Parameters		Audited	Audited
Portfolio	Rs. Crores	21388.67	23547.84
Net Interest Income	Rs. Crores	741.11	814.09
PAT	Rs. Crores	249.91	214.55
Tangible Net Worth	Rs. Crores	2583.75	2521.15
CRAR	%	16.32	14.34
Gross NPA	%	6.12	10.08
Net NPA	%	3.74	7.18

Rating History for the last three years (including suspended/withdrawn rating)

Instrument/Facility	Current Rating			Rating History								
	Type	Amount (₹ Crs)	Rating	June 2020	May 2020	Feb 2020	Aug 2019	Mar 2019	Feb 2019	2018	2017	
Proposed Perpetual Bond	Long Term	500	BWR AA+/Negative	NA								
Proposed Term Loan		2000	BWR AAA/Negative	NA								
Proposed Taxable Bonds		2000	BWR AAA/Negative	NA								
Proposed Secured Taxable Bonds		2000	Withdrawn	BWR AAA Stable	BWR AAA Stable	NA	NA	NA	NA	NA	NA	
Unsecured Taxable Sub Tier II Bonds		500	BWR AAA Negative (Reaffirmed and outlook revised from Stable)	BWR AAA Stable	BWR AAA Stable	NA	NA	NA	NA	NA	NA	
Existing Taxable Bonds		1803		BWR AAA Stable	BWR AAA Stable	NA	NA	NA	NA	NA	NA	
Taxable Green Bonds		865		BWR AAA Stable	BWR AAA Stable	NA	NA	NA	NA	NA	NA	
Taxable Sub Tier II Bonds		150		BWR AAA Stable	NA	NA						
Term Loan		2200		BWR AAA Stable	NA							
Term Loan		500		BWR AAA Stable	NA							
Long Term Taxable Bonds		150		Withdrawn	BWR AAA Stable							
Long Term Tax Free Bonds		757.65	BWR AAA (CE) Negative (Reaffirmed and outlook revised from Stable)	BWR AAA Stable								
Total Rated*		12,325. 65	INR Twelve Thousand Three Hundred and Twenty Five Crores and Sixty Five Lakhs Only									

*Excluding withdrawn

Status of non-cooperation with previous CRA (if applicable): NA



Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)

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Indian Renewable Energy Development Agency Ltd.

Annexure-I
Details of Bank Facilities

Name of the Bank	Name of Facility	Tenure	Amount (₹ Crores)
HDFC Bank	Term Loan	Long Term	200.00
State Bank of India			1000.00
Canara Bank			500.00
Bank of Baroda			1000.00
Total			2700.00

Annexure-II
Details of bonds issues withdrawn

ISIN Particulars	Amount (Rs.Crs)	Instrument Name	Issue Date	Maturity Date	Coupon Rate %
INE202E07054	150	Long Term Taxable Bonds - Series III Tranche I	Sep 24, 2010	Sep 24, 2020	8.87

Details of rated bonds issues

ISIN Particulars	Amount (Rs.Crs)	Instrument Name	Issue Date	Maturity Date	Coupon Rate %
INE202E08060	500	Taxable Unsecured Sub-Debt Tier-II Bonds Series-X	May 8, 2020	May 8, 2030	7.74
INE202E07294	803	Taxable Redeemable Non-Convertible Non-Cumulative Secured Bonds Sr-IX-B	Mar 3,2020	Mar 3,2030	7.4
INE202E07286	1000	Taxable Redeemable Non-Convertible Non-Cumulative Secured Bonds Sr-IX-A	Sep 24,2019	Sep 24,2029	8
INE202E07062	250	Long Term Taxable Bonds Series III Tranche II	Sep 24, 2010	Sep 24, 2025	9.02
INE202E07070	300	Long Term Taxable Bonds Series IV	June 4, 2012	June 4, 2022	9.49
INE202E07088	300	Long Term Taxable Bonds Series VA	May 10, 2013	May 10, 2023	8.44
INE202E07096	200	Long Term Taxable Bonds Series VB	May 10, 2013	May 10, 2028	8.49
INE202E07161	36	Long Term Taxfree Bonds Series XIII Tranche I-IC	Mar 27, 2014	Mar 27, 2029	8.56
INE202E07104	75.76	Long Term Taxfree Bonds - Series XIII Tranche I-IA	Mar 13, 2014	Mar 13, 2024	8.16
INE202E07120	123.08	Long Term Taxfree Bonds - Series XIII Tranche I-IIA	Mar 13, 2014	Mar 13, 2029	8.55
INE202E07146	38.81	Long Term Taxfree Bonds - Series XIII Tranche I-IIIA	Mar 13, 2014	Mar 13, 2034	8.55
INE202E07112	105.29	Long Term Taxfree Bonds Series XIII Tranche I-IB	Mar 13, 2014	Mar 13, 2024	8.41
INE202E07138	234.55	Long Term Taxfree Bonds - Series XIII Tranche I-IIB	Mar 13, 2014	Mar 13, 2029	8.8
INE202E07153	144.16	Long Term Taxfree Bonds - Series XIII Tranche I-IIB	Mar 13, 2014	Mar 13, 2034	8.8
INE202E07260	275	Taxable Green Bonds - Series VII A	Jan 3, 2019	Jan 3, 2029	8.51
INE202E07278	590	Taxable Green Bonds - Series VII B	Jan 17, 2019	Jan 17, 2029	8.47
INE202E08045	150	Subordinate Tier II Taxable Bonds	22 Feb 2019	22 Feb 2029	9.23
Total	5125.65				



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